

# KAVERI SEED COMPANY LIMITED

Cotton spoils Q1, Non-Cotton leads; Near-term positives priced in

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Kaveri Seeds Company Limited (KSCL) reported subdued growth in their only best quarter which is Kharif Season, In Q1FY25 KSCL reported Revenue/EBITDA/PAT of ₹8,032/2,952/2,853mn as against ₹7,361/2,778/2752 mn in Q1FY24 grew by 9%/6%/4% YoY. As per management commentary this quarter was expected to be weak due to loss of production and market share in cotton seeds and 37% increase in cost of production on a YoY basis, and the company was unable to pass on the higher cost due to MSP. Cotton segment revenue and volumes declined by 27%/35% respectively during the quarter whereas Non cotton revenues grew 32% YoY led by an 80% YoY rise in revenues of Maize and 27% rise in selection rice variety of Hybrids. KSCL's Exports revenue continued to perform as it grew 452% led by Africa and South Asia region Rice and Sunflower seeds growing faster in the export markets. KSCL's EBITDA/Pat margins came in at 36.8%/35.5% in Q1FY25 as against 37.7%/37.4% (-99bps/-188bps) in Q1FY24 respectively (PAT margin higher due to low tax as revenues are treated as agricultural income hence are exempt from taxes).

In the last few years the company has started to invest heavily on its R&D which currently stands at 5-6% of their overall revenues and as per the management is expected to go up till 7-8% over the next few years contributing to introduction of new hybrids across its non-cotton portfolio. Additionally the company's employee cost during the quarter jumped 11% YoY which currently stands at the highest level as the company continuous its hiring across R&D and Distribution side as it plans to introduce new hybrids. The company is also focusing to grow in the exports markets which currently stands at 2% of its overall revenues the management is expecting it to contributed 10% of their overall revenues in next five years.

The company is expecting to double its revenues in the next five years from ₹1.1bn to ~₹2bn by FY30 owing to introduction of new hybrids in Non-cotton portfolio mainly in crops like Rice, Maize and Vegetables. Additionally increased spending on its R&D, Employee cost and R&D Infrastructure will contribute to its growth going forward as the company continues to stay bullish on a long term basis in becoming a pure play seed company in India. Along the way introduction of new genetically modified seeds in Mustard/Rice by the government will further fillip its growth in the coming years. The management reiterated their guidance of growing its Revenues at 10-12% range over the long-term (5 years), It expects cotton revenues to grow faster than Non-cotton seeds in the next season on a low base i.e Q1FY26 as this season for cotton is over.

Key Financials	FY 22	FY 23	FY 24	FY 25E	FY 26E
Total Income (₹ mn)	9,700	10,704	11,484	11,875	14,456
EBITDA margins (%)	20.9%	23.5%	24.9%	23.6%	29.0%
PAT margins (%)	21.9%	25.5%	26.1%	25.5%	24.6%
EPS (₹)	36.5	48.8	53.6	54.1	63.6
P/E (x)	15.8	13.4	19.4	19.2	16.4
P/BV (x)	2.6	2.7	4.7	3.8	3.1
EV/EBITDA (x)	16.5	14.4	20.3	20.6	13.7
ROE (%)	16.6%	19.9%	24.3%	19.7%	18.8%
ROCE (%)	11.3%	13.3%	14.6%	12.7%	13.4%

## SELL

Current Market Price (₹)	1,037
12 M Price Target (₹)	971
Downside (%)	7

## Stock Data

Sector :	Hybrid Seeds
FV (₹) :	2
Total Market Cap (₹ bn) :	53
Free Float Market Cap (₹ bn) :	20
52-Week High / Low (₹)	1,180 / 535
BSE Code / NSE Symbol	532899 / KSCL
Bloomberg :	KSCL IN

## Shareholding Pattern

(%)	Jun-24	Mar-24	Dec-23	Sep-23
Promoter	60.50	60.50	59.90	59.90
FPIs	18.97	17.22	17.69	16.29
Insurance	2.94	2.88	2.88	5.12
AIF's	1.66	1.65	1.66	1.64
Bodies Corporate	1.24	1.19	1.48	1.41
Others	14.69	16.56	16.39	15.64

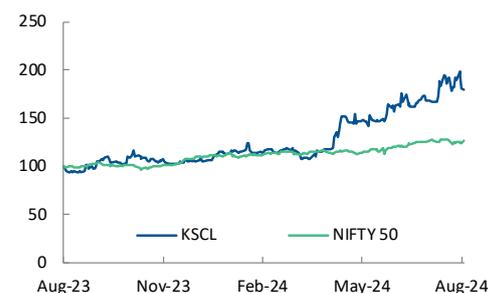
Source: BSE

## Price Performance

(%)	1M	3M	6M	12M
KSCL	7.0%	21.7%	53.6%	79.4%
Nifty 50	-0.3%	9.5%	11.3%	26.1%

\* To date / current date : August 16, 2024

## KSCL vs Nifty 50



### Quarterly Performance

(₹ mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Sales	8032	7361	9%	983	716.7%
Raw Material	4225	3733	13%	466	806.6%
Employee Cost	301	272	11%	287	5.0%
Other expenses	554	578	-4%	349	58.5%
Total Operating expenses	5080	4583	11%	1102	360.9%
EBITDA	2952	2778	6%	-119	-2586.1%
<i>EBITDA Margin (%)</i>	37%	38%	(99 bps)	-12%	4883 bps
Depreciation	76	57	35%	97	-20.8%
EBIT	2876	2722	6%	-215	-1435.9%
Other Income	91	117	-22%	250	-63.5%
Interest	0	0	107%	1	-34.9%
Exceptional items*	0	0	-	0	-
Profit Before Tax (excluding exc items)	2967	2838	5%	34	8575.9%
Adj Profit Before Tax (Inc exc items)	2967	2838		34	
Tax	112	86	-	38	-
<i>Tax rate (%)</i>	4%	3%	26%	112%	-
Profit after tax	2854	2752	4%	-4	-72293.8%
<i>PAT Margin (%)</i>	36%	37%	-186	0%	
EPS (₹)	57	49	16%	0.3	18283.9%

### Outlook

We continue to like KSCL on a long-term (3-4 years) but in the near-term we believe the growth factors are priced-in, as post our Initiating coverage (At ₹654) the share price has run up over ~65%. Although, we are still positive on the company over a longer term period but near-term concerns in cotton portfolio and decreasing market share in its key northern markets continuous to impact its overall volumes. Even though in the next year volumes might come back on a low base we believe the stock price has run ahead of the estimated growth. KSCL's Revenue/EBITDA/PAT has grown at a CAGR of 5%/3%/4% between FY20-FY24 on the back of new products introduced in their Non-Cotton portfolio as the company continues to reduce its dependence on Cotton seeds. However the company is yet to reach peak Revenue/PAT levels of 2014-15 but we believe owing to its Non-cotton portfolio mainly Vegetables, Maize & Rice with tremendous potential to grow as far as Hybridization is concerned KSCL will continue to improve its realizations in its Non-cotton portfolio as hybridization gains pace. We expect KSCL to post a Revenue/EBITDA/PAT CAGR of 12%/19%/10% respectively over FY23-FY26E. We revise our rating to 'SELL' from 'BUY' rating for a TP of ₹971.

### Key Concall Highlights

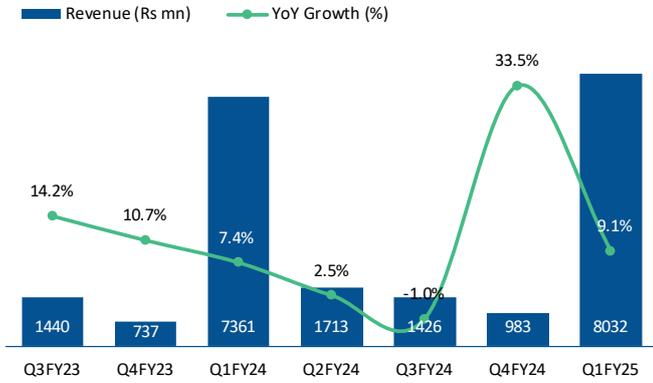
- Huge supply in market, last year's rainfall, Company wanted to retain realization levels. Hence, compromised on volumes. The company was unable to reduce the cost of production and couldn't pass on the increased cost to farmers due to government regulations on MSPs.
- Majority cotton sale is already done in Q1FY25, so don't expect to regain momentum in coming quarters.
- Management will assess the performance of the GOI's programme which is 109 high yielding seeds, currently don't utilise benefits of this. Already have tie-ups with government bodies and international institutions and own R&D to breed seeds.
- GOI's initiated ethanol project will boost the sales of maize, Current market share of maize is ~10%-11%.
- Gained traction in exports over the last 3-4 yrs, especially sunflower and rice exports. Currently, targeting African and southeast Asian countries.
- Cotton cultivation has become difficult now because of high prices & pests, but volumes would grow looking at a current low base.

### Key Risks

- Agri-inputs industry is subject to substantially all of the risks faced by the agriculture in India. The agri-inputs industry is substantially subject to weather factors (excess or shortfall in rains) and presence of diseases and pests.
- The agri-inputs business is highly seasonal in nature subject to Kharif and Rabi season (60-70% of KSCL sales are coming from Kharif season).
- Any Changes in the regulatory framework can impact KSCL's business.

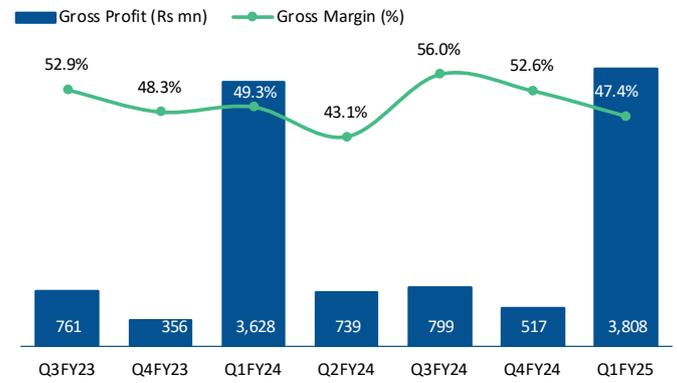
Story in charts

Revenue growth subdued in Q1FY25

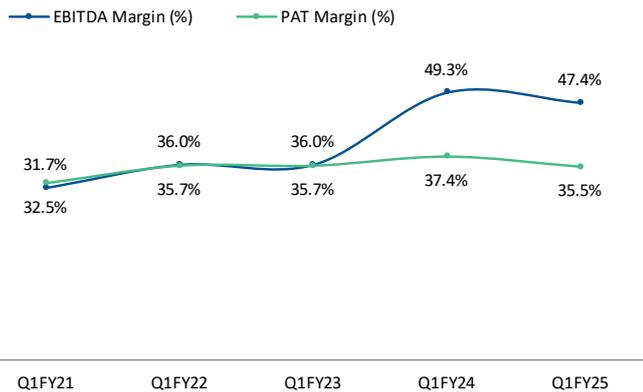


Source: Company, LKP Research

Gross margin impacted amid decline in cotton production

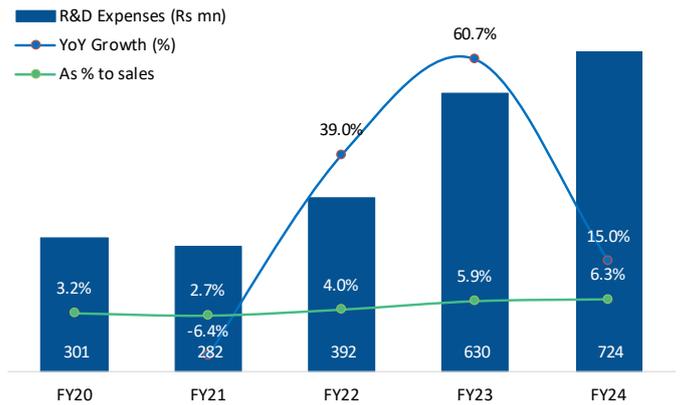


Operating margin remained protected due to Non-cotton sales



Source: Company, LKP Research

R&D Expenses as % to sales on the rise



### Profit and Loss Statement

(₹ mn)	FY22	FY23	FY 24	FY 25E	FY 26E
<b>Revenue from Operations</b>	<b>9,700</b>	<b>10,704</b>	<b>11,484</b>	<b>11,875</b>	<b>14,456</b>
Raw Material Cost	5,368	5,645	5,800	6,175	6,579
Employee Cost	912	983	1,192	997	1,306
Other Exp	1,394	1,558	1,634	1,900	2,375
<b>EBITDA</b>	<b>2,025</b>	<b>2,517</b>	<b>2,858</b>	<b>2,802</b>	<b>4,196</b>
<i>EBITDA Margin(%)</i>	<i>20.9%</i>	<i>23.5%</i>	<i>24.9%</i>	<i>23.6%</i>	<i>29.0%</i>
Depreciation	209	205	280	230	464
<b>EBIT</b>	<b>1,816</b>	<b>2,312</b>	<b>2,578</b>	<b>2,573</b>	<b>3,733</b>
<i>EBIT Margin(%)</i>	<i>18.7%</i>	<i>21.6%</i>	<i>22.4%</i>	<i>21.7%</i>	<i>25.8%</i>
Other Income	413	549	632	605	-
Interest	1	2	2	2	2
<b>PBT</b>	<b>2,228</b>	<b>2,859</b>	<b>3,208</b>	<b>3,177</b>	<b>3,731</b>
<i>PBT Margin(%)</i>	<i>23.0%</i>	<i>26.7%</i>	<i>27.9%</i>	<i>26.8%</i>	<i>25.8%</i>
Tax	100	132	209	149	175
<b>Adjusted PAT</b>	<b>2,128</b>	<b>2,726</b>	<b>2,999</b>	<b>3,027</b>	<b>3,556</b>
<i>APAT Margins (%)</i>	<i>21.9%</i>	<i>25.5%</i>	<i>26.1%</i>	<i>25.5%</i>	<i>24.6%</i>
Exceptional items	0	0	0	0	0
<b>PAT</b>	<b>2,128</b>	<b>2,726</b>	<b>2,999</b>	<b>3,027</b>	<b>3,556</b>
<i>PAT Margins (%)</i>	<i>21.9%</i>	<i>25.5%</i>	<i>26.1%</i>	<i>25.5%</i>	<i>24.6%</i>

## Balance Sheet

(₹ mn)	FY 22	FY 23	FY 24	FY 25E	FY 26E
<b>Equity and Liabilities</b>					
Equity Share Capital	117	112	103	103	103
Reserves & Surplus	12691	13539	12224	15251	18807
<b>Total Networkth</b>	<b>12808</b>	<b>13651</b>	<b>12327</b>	<b>15354</b>	<b>18910</b>
Long term Borrowings	6	1	0	1	1
Deferred tax liability	168	105	130	138	278
Other Non-Current liabilities	304	321	383	410	441
<b>Total non-current liab and provs</b>	<b>478</b>	<b>428</b>	<b>513</b>	<b>549</b>	<b>720</b>
<b>Current Liabilities</b>					
Short term Borrowings & Provisions	14	17	17	17	19
Trade Payables	2297	2318	2470	2573	2507
Other current liabilities	3204	4097	5155	5344	4337
<b>Total current liab and provs</b>	<b>5515</b>	<b>6432</b>	<b>7641</b>	<b>7933</b>	<b>6862</b>
<b>Total Equity &amp; Liabilities</b>	<b>18801</b>	<b>20510</b>	<b>20482</b>	<b>23836</b>	<b>26492</b>
<b>Assets</b>					
Gross block	4,691	5,056	5,056	5,937	6,884
Net block	2416	2593	2962	3028	3511
Capital WIP	432	1331	1335	1331	1331
Other non current assets	910	806	1084	847	996
<b>Total fixed assets</b>	<b>3758</b>	<b>4730</b>	<b>5381</b>	<b>5206</b>	<b>5837</b>
Inventories	7606	7179	7426	7257	7422
Trade receivables	1107	1333	1118	1319	1385
Biological Assets	818	1174	1214	1450	1650
Investments	4705	5567	4719	7683	8835
Cash & Bank Balance	201	216	242	445	811
Other current assets	265	309	380	475	551
<b>Total current Assets</b>	<b>14703</b>	<b>15779</b>	<b>15099</b>	<b>18630</b>	<b>20655</b>
Assets held for sale	339	2	2	0	0
<b>Total Assets</b>	<b>18801</b>	<b>20511</b>	<b>20481</b>	<b>23836</b>	<b>26492</b>

## Key Ratios

YE Mar	FY22	FY23	FY 24	FY 25E	FY 26E
<u>Per Share Data (Rs)</u>					
Adj. EPS	36.5	48.8	53.6	54.1	63.6
CEPS	40.1	52.4	58.6	58.2	71.9
BVPS	219.8	244.5	221.0	274.6	338.1
<u>Growth Ratios(%)</u>					
Revenue	-6.4%	10.3%	7.3%	3.4%	21.7%
EBITDA	-32.0%	24.3%	13.5%	-2.0%	49.7%
EBIT	-34.1%	27.3%	11.5%	-0.2%	45.1%
PAT	-31.6%	28.1%	10.0%	0.9%	17.5%
<u>Valuation Ratios (X)</u>					
PE	15.8	13.4	19.4	19.2	16.4
P/CEPS	14.4	12.5	17.7	17.9	14.5
P/BV	2.6	2.7	4.7	3.8	3.1
EV/Sales	3.5	3.4	5.0	4.9	4.0
EV/EBITDA	16.5	14.4	20.3	20.6	13.7
<u>Operating Ratios (Days)</u>					
Inventory days	282.3	241.4	240.0	220.0	225.0
Receivable Days	41.1	44.8	42.0	40.0	42.0
Payables day	85.3	78.0	76.0	78.0	76.0
Debt to Equity (x)	0.00	0.00	0.00	0.00	0.00
<u>Performance Ratios (%)</u>					
ROA (%)	11.3%	13.3%	14.6%	12.7%	13.4%
ROE (%)	16.6%	19.9%	24.3%	19.7%	18.8%
ROCE (%)	13.7%	16.4%	20.0%	16.2%	19.0%
Asset Turnover(x)	2.10	2.20	2.10	2.00	2.10
Inventory Turnover(x)	1.3	1.5	1.5	1.6	1.9

## Cash Flow

(₹ mn)	FY22	FY23	FY 24	FY 25E	FY 26E
PBT	2228	2859	3208	3177	3731
Depreciation	209	205	280	217	230
Other Adjustments	-358	-516	-513	-34	-21
Operating CF before WC changes	2079	2548	2975	3360	3939
Changes in working capital	-1018	372	948	318	265
Tax paid	-87	-273	-209	-149	-175
<b>Cash flow from operations (a)</b>	<b>1102</b>	<b>2965</b>	<b>3894</b>	<b>3711</b>	<b>4225</b>
Capital expenditure	-470	-1085	-996	-877	-947
Other investing activities	1131	-103	1374	-2556	-3427
<b>Cash flow from investing (b)</b>	<b>661</b>	<b>-1188</b>	<b>378</b>	<b>-3433</b>	<b>-4374</b>
<b>Free cash flow (a+b)</b>	<b>1763</b>	<b>1777</b>	<b>4272</b>	<b>278</b>	<b>-148</b>
Buyback of equity shares	-1463	-1527	-3989	-555	0
Dividend including Tax on Dividend	-230	-230	-276	488	519
Other flows in financing activities	-5	-6	18	-5	-5
<b>Cash flow from financing (c)</b>	<b>-1698</b>	<b>-1762</b>	<b>-4246</b>	<b>-72</b>	<b>514</b>
<b>Net chng in cash (a+b+c)</b>	<b>66</b>	<b>15</b>	<b>26</b>	<b>206</b>	<b>366</b>
<b>Closing cash &amp; cash equivalents</b>	<b>198</b>	<b>213</b>	<b>239</b>	<b>445</b>	<b>811</b>

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